

Message Text

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TO AMEMBASSY RABAT NIACT IMMEDIATE

AMEMBASSY JIDDA NIACT IMMEDIATE

S E C R E T STATE 006182

E.O. 11652: GDS

TAGS: TECH, ENRG

SUBJECT: CRUDE OIL SUPPLY FOR STRATEGIC PETROLEUM RESERVE
(SPRO)

PASS TO HARRY BERGOLD AND ROGER COLLOFF WITH SECRETARY
SCHLESINGER'S PARTY.

1. FOLLOWING IS TEXT OF TLO MEMORANDA TRANSMITTED IN
RESPONSE TO JANUARY 9 BERGOLD TELCON TO DAVID PARDIN.
2. COULD HE STOCK SOME OF OUR SPRO SALT DOME CAPACITY
WITH CRUDE OIL TANKED--RATHER THAN SOLD--BY THE OWNER, A
FOREIGN GOVERNMENT OR A CORPORATION?

SYSTEM SUGGESTED:

A COMMERCIAL, NON-POLITICAL AGREEMENT BETWEEN A SUPPLIER

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AND USA. QUOTE BANKED UNQUOTE OIL WOULD BE SUBJECT TO
UNILATERAL USA PRODUCTION CONTROL, JUST LIKE ANY OTHER
SPRO OIL. PAYMENT TO SUPPLIER WOULD BE MADE AT WORLD
PRICE AT TIME OF WITHDRAWAL. (COSTS OF LIFTING,
LOADING, TRANSPORTING AND FILLING COULD BE APPORTIONED
BETWEEN SUPPLIER AND USA AT OUTSET.)

SOME ADVANTAGES TO SUPPLIER:

--BILATERAL AGREEMENT WITH USA.

--OPPORTUNITY TO TRANSFER SOME CRUDE OIL ASSETS TO THE MOST SECURE GROUND IN THE WORLD (IN TERMS OF POLITICAL STABILITY), RETAINING RIGHTS TO APPRECIATION IN VALUE. ANALOGOUS TO HOLDING GOLD IN A SWISS BANK VAULT (EXCEPT FOR LOSS OF CONTROL AS TO WHEN TO SELL).

--A CHANCE TO EXPLOIT EXCESS PRODUCTION CAPACITY WITHOUT GENERATING EXCESS CASH FLOW AT T'IS TIML.

.-SOME SECURITY FOR SUPPLIER MARKETING RELATIONSHIPS AND FUTURE CASH FLOW IN CASE ACCIDENTS OR SABOTAGE INTERRUPTED SUPPLIER'S CAPA0ILITY TO LIFT AND DELIVER OIL.

SOME DISADVANTAGES TO SUPPLIER:

--POLITICAL APPEARANCE OF LOSS OF INDEPENDENCE (E.G. QUOTE ABANDONING THE OIL WEAPON UNQUOTE).

--RISK THE USA MIGHT USE SPRO SOME DAY TO DAMPEN PRICES OR MIGHT NOT DEAL FAIRLY WITH BANKED OIL.

--FOREGOING PRESENT CASH FLOW AND ANY EFFECT ON WORLD
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PRICES, IF THESE ARE DESIRED.

USA INTERESTS:

--BILATERAL ARRANGEMENTS.

--SHORT TERM BUDGETARY SAVINGS.

--AVOID SOME OF THE OPEC-USA CO FRONTATION IMPLICIT IN SPRO--WITH BOTH ADVANTAGES AND DISADVANTAGES IN THE POLITICAL SPHERES.

OTHER ISSUES:

IS THERE ROOM FOR CONDUCTING A SECONDARY PETROLEUM RESERVE WITH A MORE COMMERCIAL OR BILATERAL EMPHASIS. E.G. A RESERVE JOINTLY MANAGED 0Y USA AND SUPPLIER?

DID AN;ONE TRY TO DREAM UP A BASIS FOR A NON-GOVERNMENTAL SALT DOME RESERVE? E.G. A REAL SWISS-BANKING CORPORATION ENTICING CRUDE OIL TO A SECURE BANK OR A BURDEN

LEGISLATIVELY IMPOSED UPON INTERNATIONAL OIL COMPANIES.

3. AN IDEA FOR A CHEAP WAY TO FILL THE STRATEGIC OIL RESERVE (WITH POSSIBLE ADDITIONAL BENEFITS), (OY MAX SINGER).

I THE BASIC IDEA

INSTEAD OF BUYING OIL TO FILL THE STRATEGIC STOCKPILE MAYBE WE CAN FIND ONE OR A FEW COUNTRIES WITH OIL THEY CANNOT PUT ON THE MARKET NOW WHO WOULD LIKE TO DEPOSIT THAT OIL IN THE U.S. STORAGE SITES. THEY WOULD CONTINUE TO OWN THE OIL. WE WOULD HAVE THE RIGHT TO BUY THE OIL AT ANY TIME AT THE THEN CURRENT WORLD PRICE. THEY WOULD
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HAVE THE RIGHT TO WITHDRAW THE OIL AT ANY TIME IN THE FUTURE, BUT NOT FASTER THAN WE COULD REPLACE IT. THEY WOULD HAVE THE RIGHT TO SELL IT TO US AT ANY TIME AT THE VALUE AT THE TIME OF DEPOSIT.

THERE MAY BE TWO GROUPS OF POTENTIAL CUSTOMERS FOR SUCH AN IDEA. ONE IS THE COUNTRIES WITH IMMEDIATE SHUT-IN PRODUCTION CAPACITY. I BELIEVE THIS IS PRINCIPALLY SAUDI ARABIA, KUWAIT, THE UAE, AND LIBYA. THE OTHER POSSIBILITY MIGHT BE COUNTRIES WHICH ARE GOING MORE SLOWLY THAN THEY COULD IN INCREASING PRODUCTION CAPACITY. I BELIEVE MEXICO IS IN THIS SITUATION AND PERHAPS NIGERIA AND INDONESIA. (IN SAUDI ARABIA IT HAS PROVED POSSIBLE TO INCREASE PRODUCTION AS MUCH AS 1-2 MBD IN A YEAR.)

FOR REASONS WHY COUNTRIES MIGHT WANT TO DEPOSIT OIL IN OUR TANKS SEE NEXT SECTION.

II DISCUSSION

ADVANTAGES TO THE U.S.

(1) SAVES MONEY INITIALLY.

(2) AT LEAST PARTIALLY REDUCES PRESSURE ON OIL MARKET OF FILLING RESERVOIR.

(3) SAVES MONEY IN THE LONG TERM IF WE NEVER NEED TO WITHDRAW THE OIL, OR IF THE PRICE WHEN WE NEED TO BUY IS ABOVE THE CURRENT PRICE BY LESS THAN THE ACCUMULATED INTEREST.

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(4) THERE MAY BE DIPLOMATIC ADVANTAGES.

(5) IT IS A STATEMENT THAT WE BELIEVE THAT AT CURRENT PRICES MONEY IS A BETTER ASSET THAN OIL IN THE GROUND.

(6) IF THE QUOTE MEXICAN VARIANT UNQUOTE OF THE IDEA (SEE BELOW) IS USED IT WILL HAVE THE EFFECT OF EXPANDING OIL PRODUCTION CAPACITY.

DISADVANTAGES TO THE U.S.

(1) WE LOSE THE BENEFIT OF OIL PRICE INCREASES. I.E., WE REDUCE OUR SPECULATIVE POSITION.

(2) THIS MEANS THAT IF WE EVER NEED THE OIL WE MAY HAVE TO PAY A VERY HIGH PRICE FOR IT.

(3) THIS MAY BE A SLOWER WAY OF FILLING THE STOCKPILE.

ADVANTAGES TO THE DEPOSITOR

(1) IT IS A WAY OF DIVERSIFYING HIS ASSETS AND RISKS. SOME OF HIS OIL HE KEEPS IN THE GROUND AT HOME AND SOME IN THE U.S.

(2) IT GIVES HIM THE ABILITY IN THE FUTURE TO RAPIDLY INCREASE HIS OIL SALES (BY USING BOTH HIS PRODUCTION CAPACITY AND HIS DEPOSITS).

--IF HE NEEDS MONEY IN A HURRY

--IF PRICES ARE HIGH

--AS BARGAINING STRENGTH WITHIN OPEC

(3) IT IS PROTECTION AGAINST ACCIDENT, SABOTAGE, OR

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SEIZURE OF HIS DOMESTIC PRODUCTION CAPACITY.

(4) THERE WOULD BE NO MONEY COST. HE WOULD PAY ALL OUT-OF-POCKET EXPENSES.

(5) THE RIGHT TO QUOTE PUT UNQUOTE THE OIL TO THE U.S. WOULD BE PROTECTION AGAINST FALLING OIL PRICES.

(6) IT WOULD BE A FRIENDLY ACT TO THE U.S. WE MIGHT INITIALLY OR LATER BE ABLE TO RETURN THE FAVOR.

(7) FOR THE QUOTE MEXICAN VARIANT UNQUOTE WE MIGHT ADVANCE THE MONEY TO EXPAND THEIR PRODUCTION CAPACITY AS FAST AS IS TECHNICALLY FEASIBLE. THE FIRST OIL FROM THIS EXPANDED CAPACITY WOULD GO TO THE STOCKPILE. AFTER IT IS FILLED THEY WOULD PAY US BACK FROM LATER SALES OF OIL FROM THE FACILITIES WE BUILT, WHICH THEY WOULD OWN. THEY WOULD NOT BE REQUIRED TO PRODUCE FROM THESE FACILITIES (EXCEPT ENOUGH TO PAY US BACK THE COST).

DISADVANTAGES TO THE DEPOSITOR

(1) REQUIRES DEMONSTRATIVELY TRUSTING THE U.S.

(2) IT IS A FRIENDLY ACT TO THE U.S.

(3) IT MAY BE SEEN AS AN UNFRIENDLY ACT TO OPEC OR TO OAPEC.

(4) FOR POTENTIAL EMBARGOERS OF THE U.S., THEY WOULD BE PROVIDING THE WEAPON THAT WOULD BE USED AGAINST THEM (OUT IF THEY DON'T PROVIDE IT SOMEBODY ELSE WILL).

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(5) MAYBE THERE ARE TECHNICAL DISADVANTAGES - OR ADVANTAGES.

III PROBLEMS AND QUESTIONS

(1) THE POTENTIAL DEPOSITORS MIGHT NOT WANT TO DEPOSIT AND IT MIGHT BE EMBARRASSING TO ASK.

--THEY MIGHT NOT WANT TO LOOK TOO FRIENDLY TO THE U.S.

--THEY MIGHT NOT WANT TO LOOK TOO UNFRIENDLY TO THE ARABS OR TO OPEC.

--THEY MIGHT NOT WANT TO STIR UP SUSPICIONS IN OPEC.

(2) THERE MIGHT BE OBJECTIONS IN THE U.S.

--IT MIGHT SEEM TOO TRICKY OR TOO COMPLICATED.

--IT MIGHT SEEM TO BE ESTABLISHING TOO CLOSE A RELATIONSHIP (DEPENDENCY) WITH THE DEPOSITOR.

--IT MIGHT BE FELT TO BE OBJECTIONABLE TO PUT OURSELVES
IN A POSITION WHERE WE WOULD HAVE TO PAY HIGH PRICES TO
A COUNTRY JUST WHEN IT WAS EMBARGOING US.

--SOME PEOPLE MAY THINK IT IS GOOD FOR THE U.S. TO HAVE
A SPECULATIVE LONG POSITION IN OIL.

(3) THE DETAILS WILL BE A LITTLE BIT DIFFICULT TO SPELL
OUT. E.G., ESTABLISHING THE CURRENT PRICE OF OIL,
DEFINING THE MAXIMUM RATE OF WITHDRAWAL BY DEPOSITOR.

IV ISSUES ON WHICH AN EXPERT MAY BE NEEDED

(1) OPEC POLITICS AND ECONOMICS.
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(2) GENERAL DIPLOMATIC ISSUES OF U.S. RELATIONSHIPS WITH
POTENTIAL DEPOSITORS AND THE TACTICS OF EXPLORING THE
IDEA WITH THEM.

(3) TECHNICAL (GEOLOGY, OIL PRODUCTION) PROBLEMS OF
TEMPORARILY OR RAPIDLY EXPANDING PRODUCTION.

(4) WHO HAS THE CAPACITY OR POTENTIAL CAPACITY NECESSARY
TO BE A DEPOSITOR. VANCE

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